

ISSUE DATE: October 15, 1996

DOCKET NO. G-007/D-96-614

ORDER CERTIFYING 1996 DEPRECIATION RATES

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Joel Jacobs
Marshall Johnson
Dee Knaak
Mac McCollar
Don Storm

Chair
Commissioner
Commissioner
Commissioner
Commissioner

In the Matter of Northern Minnesota Utilities'
Request for Certification of 1996 Depreciation
Rates

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DEPRECIATION RATES

PROCEDURAL HISTORY

On May 31, 1996, Northern Minnesota Utilities (NMU or the Company) filed a request for certification of 1996 depreciation rates. The filing included the Company's technical update, which adjusts depreciation rates for changes in the variables associated with a remaining life accrual rate.

On July 11, 1996, NMU submitted a corrected version of its technical update.

On July 26, 1996, the Department of Public Service (the Department) submitted comments. The Department recommended that the Commission approve NMU's depreciation filing with modifications.

On August 2, 1996, NMU filed reply comments disagreeing with the Department's proposed modifications to the depreciation filing.

On September 26, 1996, the matter came before the Commission for consideration.

FINDINGS AND CONCLUSIONS

I. FACTUAL BACKGROUND

Both NMU and Peoples Natural Gas Company (Peoples) are divisions of UtiliCorp. In 1995, NMU's plant accounting records were integrated into Peoples' mechanized plant accounting system. Although NMU's records remained separate from Peoples', certain NMU accounts were combined and reclassified to conform with Peoples' accounting classifications.

NMU used a new study of the ages of its plant in preparing its depreciation filing. This depreciation update departed from prior updates, in which remaining life estimates were based on simulations of the age of remaining plant rather than on actual data. In the current study, NMU reviewed its actual plant records and used its actual data in the remaining life estimates.

NMU's proposed depreciation rates result in a decrease in depreciation expense of \$129,412 compared to depreciation expense calculated with the present rates. The reclassification of certain NMU accounts contributed in part to the decrease. Conversion from simulated age distributions of plant to actual data also contributed to the change in depreciation expense.

II. POSITIONS OF THE PARTIES

The Department found that the Company's depreciation rates and salvage values for most accounts were reasonable, proper, and adequate. The Department disagreed, however, with the Company's reclassification of Account No. 390.01 with Account No. 375. The Department recommended that the Company be required to use the parameters for its former Account No. 390.01 for the new combined Account No. 375. The Department also recommended that the average salvage value for the new Account No. 375 reflect realized salvage value from the old Account No. 390.01.

At the September 26, 1996 meeting, the Department indicated that it had changed its position regarding the proposed reclassifications: the Department now found that the Company's reclassifications were contrary to the Uniform System of Accounts (USOA).

NMU opposed the Department's recommendation to adjust the average net salvage value of former Account No. 375. The Company stated that depreciation rates and accruals are not impacted by average net salvage in a technical update of remaining life accrual rates. The Company stated that it would adjust both realized and average net salvage rates in its next comprehensive depreciation study, due in 1999. To modify its average net salvage values prior to that time would be a waste of the Company's resources.

At the September 26, 1996 hearing, NMU disagreed with the Department's assertion that the proposed account reclassifications are contrary to the USOA.

III. COMMISSION ACTION

A. DEPRECIATION RATES AND PLANT ACCOUNT RECLASSIFICATION

In general, the Commission finds that NMU's proposed lives, salvage factors, and resulting depreciation rates are reasonable and acceptable.

The Commission finds, however, that NMU's proposed account consolidations and reclassifications are inconsistent with the provisions of the USOA.¹ The consolidations of Account Nos. 390/375 and Nos. 397/387 are two examples of improper accounting.

Under the USOA, gas plant is divided into the following accounting categories: intangible, production, storage, transmission, distribution, and general plant. While both Account No. 375

¹ US Minn. Stat. § 216B.10 provides that the Commission shall establish a system of accounts to be kept by public utilities subject to its jurisdiction. Minn. Rules, part 7825.0300 provides that Minnesota public utilities shall conform to the FPC (now FERC) Uniform System of Accounts (the USOA).

and Account No. 390 are structures and improvements, they are functionally different and therefore belong in different accounting categories . Account No. 375 is distribution plant--office or storage buildings used by construction, maintenance, system operations, and customer service personnel. Account No. 390 is general plant--office buildings used by corporate headquarters and customer service and accounting. Under the USOA, these two accounts should properly remain in their present accounts.

NMU also improperly grouped Account No. 397--Communications Equipment--and Account No. 387--Other Equipment. Under the USOA, Communication Equipment should only be recorded in Account No. 397 and should remain in general plant and not be included in Account No. 387 in distribution plant.

Commission statutes, rules, and Orders require all Minnesota utilities to conform to the USOA so that all interested parties--regulatory agencies, other utilities, public interest groups, and the general public--are "on the same page" regarding the meaning of utilities' depreciation categories, methods, and calculations. NMU's proposed reclassifications of its depreciation accounts bring the accounts outside the accounting standards. The fact that the reclassifications may have enabled NMU to conform with Peoples' accounting methods is not a justification for the change. NMU must comply with the USOA standards unless and until the Company can present sound reasons for an exception to current statutes and rules.

The Commission will not, however, reject the Company's 1996 depreciation filing due to the reclassifications. The Commission has found that NMU's overall proposed lives and resulting depreciation rates are reasonable and acceptable. Since the overall rates are reasonable, the Commission will not require the Company to resubmit a technical update excluding the proposed reclassifications. While the Commission will accept the proposed classifications for the purpose of computing NMU's 1996 depreciation rates, the Company must file its 1997 technical update without the proposed reclassifications. In its 1997 filing, NMU should use the parameters for each individual account as approved in the Company's last five year update filing.

B. REALIZED SALVAGE VALUES

The Commission agrees with NMU that it is not necessary for the Company to refile its technical update with an adjustment to the new Account No. 375 realized salvage values, as recommended by the Department. In a technical update filing such as this, only the remaining lives and depreciation rate based on those lives are normally updated. An adjustment to realized salvage values would not impact the 1996 depreciation rate. For these reasons, the Commission will not require NMU to refile its technical update to adjust realized salvage values.

C. SIMULATED VS. ACTUAL REMAINING PLANT LIFE

In prior NMU filings, the Company based the age of remaining plant (or plant mortality) on a simulation. In the current technical update filing, the Company analyzed its accounts and used actual data to determine the actual age of remaining plant.

A utility would not normally change from estimated to actual remaining life data in a technical

update filing, but would wait for the utility's next five year comprehensive depreciation study to effect the change. In this case, however, the decrease in depreciation expense resulting from the change to actual remaining life data would not be reflected in rates until NMU files its next general rate case. Since NMU has not filed a rate case for over ten years, it is reasonable to expect that there will be no impact from the change prior to the Company's next five year study in 1999. The Commission will therefore allow NMU to continue using actual data in its future technical updates.

IV. CONCLUSION

The Commission approves NMU's proposed depreciation rates as filed on July 11, 1996 for the purpose of computing NMU's 1996 depreciation rates. The Commission will require the Company to file its 1997 technical update without the reclassifications proposed in this filing. In its 1997 filing, NMU should use the parameters for each individual account as approved in the Company's last five year update filing.

The Commission will not require NMU to refile its technical update to adjust realized salvage values, as recommended by the Department, and will allow NMU to continue using actual remaining plant life data in its future technical updates.

The depreciation rates and methods certified in this Order are binding on all future rate proceedings and remain in effect until the next depreciation certification or until otherwise changed by the Commission. Minn. Rules, part 7825.0900. Specific dollar amounts of gross plant, depreciation reserve, annual accrual, and dollars to be allowed as additional depreciation are subject to audit; the inclusion of items in this Order for depreciation purposes does not guarantee their inclusion in the rate base and income statement for ratemaking purposes.

Companies are required by law to review their depreciation rates annually to ensure that they are still generally appropriate. Minn. Rules, part 7825.0600, subps. 2 and 3. The Commission will require the Company to file a remaining life depreciation petition based on its next annual review.

ORDER

1. The Commission approves NMU's proposed depreciation rates as filed on July 11, 1996 for the purpose of computing NMU's 1996 depreciation rates. The Commission will require the Company to file its 1997 technical update without the reclassifications proposed in this filing. In its 1997 filing, NMU should use the parameters for each individual account as approved in the Company's last five year update filing.
2. The Commission will not require NMU to refile its technical update to adjust realized salvage values.
3. The Commission will allow NMU to continue using actual age of remaining plant data in its future technical updates.
4. The Commission certifies the following lives and future net salvage values on the basis of the depreciation petition submitted by NMU:

<u>Account Number</u>	<u>Class of Utility Plant</u>	<u>Remaining Life (Years)</u>	<u>Estimated Future Net Salvage (%)</u>
Production Plant:			
311.00	Liquified Petroleum Gas Equipment	16.98	0.0
Transmission Plant:			
367.00	Mains	38.41	-10.0
369.00	Meas. & Reg. Equip.	26.16	-5.0
Distribution Plant:			
375.01	Structures & Improvements	31.77	0.0
376.00	Mains	43.27	-19.8
378.00	Meas. & Reg. Equip.	19.09	0.0
380.00	Services	33.57	-98.1
381.00	Meters	23.70	0.0
383.00	House Regulators	20.58	-15.4
385.00	Meas. & Reg. Equip. - Industrial	17.53	-5.2
387.00	Other Equipment	16.51	0.0
General Plant:			
391.01	Office Furniture & Equip.	13.83	5.0
391.02	Computer Equipment	5.80	4.6
394.00	Tools, Shop & Garage Equip.	28.20	0.6
396.00	Power Operated Equip.	12.45	25.0

5. Accruals to the depreciation reserve for each remaining life account shall be calculated by taking the original cost of depreciable plant in the account, subtracting its estimated future net salvage and its associated depreciation reserves, and dividing the difference by the estimated remaining life of the surviving plant in the account.
6. In the event any class of plant shall become fully depreciated by the use of these rates, then no further depreciation accrual for such class of plant shall be made.
7. By June 1, 1997, the Company shall file a remaining life depreciation report based on its annual review of depreciation rates, remaining lives, and net salvage values.

8. The rates certified by this Order are effective January 1, 1996. The next five-year depreciation study is due by June 1, 1999.
9. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Burl W. Haar
Executive Secretary

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